

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Haynes Analyst: Darrine Distefano Bill Number: SB 1725

Related Bills: See Prior Analysis Telephone: 845-6458 Amended Date: 04-06-2000

Attorney: Patrick Kusiak Sponsor:

SUBJECT: Exclusion/Retired Pay and Survivor Annuities Received from Retirement from Armed Forces

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED 02-23-2000 STILL APPLIES.

☒ OTHER - See comments below.

SUMMARY OF BILL

Under the Personal Income Tax Law (PITL), this bill would exclude from California gross income:

- ⌚ all federal military retirement benefits or retirement payments received under a federal Survivor Benefit Plan (SBP) and
- ⌚ the first \$20,000 of military retirement pay.

SUMMARY OF AMENDMENT

The April 6, 2000, amendments added several co-authors to the bill and made a technical change.

The April 3, 2000, amendments deleted the bill's prior language and added language to exclude from gross income both all federal military retirement benefits or payments received under a federal Survivor Benefit Plan (SBP) and the first \$20,000 of military retirement pay. The amendments also added language making certain legislative findings.

Except for the amendments described above and the items discussed in this analysis, the remainder of the department's analysis of the bill as introduced February 23, 2000, still applies.

Specific Findings

Under **existing federal and state law**, the amount of any reduction in the retired or retainer pay of a member of the uniformed services to provide an annuity to a survivor of the member pursuant to Chapter 73 of Title 10 of the United States Code is excluded from gross income. Annuities received by survivors of deceased members of the uniformed services pursuant to those provisions of law are included in the gross income of survivor. The cost of providing annuities under SBP are partially subsidized by the federal government.

Board Position:

_____ S	_____ NA	_____ NP
_____ SA	_____ O	_____ NAR
_____ N	_____ OUA	_____ <input checked="" type="checkbox"/> PENDING

Legislative Director

Date

Johnnie Lou Rosas

4/11/00

Policy Considerations

This bill refers to the federal military retirement benefits or payments received under a federal SBP under Subchapter II of Chapter 73 of Title 10 of the United States Code. Federal military retirement benefits for survivors of deceased members of the armed forces also are provided under the Retired Serviceman's Family Protection Plan (RSFPP), established pursuant to Subchapter I of Chapter 73 of Title 10 of the United States Code and the Supplemental Survivor Benefit Plan (SSBP), established pursuant to Subchapter III of Chapter 73 of Title 10 of the United States Code. As written, this bill provides exclusion only for the SBP benefits, but not for RSFPP benefits or SSBP benefits. Thus, this bill would provide differing treatment based solely on classification.

Implementation Considerations

This bill does not define "military retirement pay." Under federal law, payments to retired members of the uniformed services include "retired pay" (including disability retired pay) and "retainer pay." The uniformed services consist of the Army, Navy, Air Force, Marine Corps, Coast Guard, Public Health Service, and National Oceanic and Atmospheric Administration.

Once this concern is resolved, implementation of this bill would not significantly impact the department.

FISCAL IMPACT

Tax Revenue Estimate

Based on data and assumptions discussed below, the following revenue losses are projected to result from this proposal:

Estimated Revenue Impact of SB 1725 As Amended April 6, 2000 Assumed Effective From 1/1/00 With Enactment After 6/30/00 (In \$Millions)			
Fiscal Years	2000/01	2001/02	2002/03
Revenue Impact (Rounded)	-\$175	-\$145	-\$150

The \$20,000 limitation is applied to retirement payments. Payments of survivor annuities are considered to qualify for a 100% exclusion.

Any possible changes in employment, personal income, or gross state product that might result from this provision are not taken into account.

Revenue Estimate Discussion

Revenue losses would depend on the amount of qualified retired military payments received in any given year for which state income taxes would otherwise be incurred.

According to available data from the U.S. Military Department, military retirement payments of \$20,000 per year or less to California residents were over \$1,568 million in year 1999. In the same year, the number of retirees receiving more than \$20,000 per year was 53,979, resulting in nearly \$1,080 million of exclusions. The amount of survivor annuities paid to California benefactors was over \$263 million in 1999.

The total amount of \$2,911 million of exclusions was indexed by 3% annually to project the qualified payments for year 2000 and the years thereafter.

This total amount was reduced 15% to allow for:

- ⌚ current law exclusions for certain veterans' compensation and
- ⌚ recipients not incurring state income taxes.

A 5.5% average marginal tax rate was then applied to estimate the state revenue loss (on the order of \$130 million for the 2000 taxable year).

The 2000/01 fiscal impact reflects all 2000 losses plus 25% of the year 2001 losses to allow for reduced estimated tax payments.

BOARD POSITION

Pending.